

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 94-304-W - ORDER NO. 95-1491  
SEPTEMBER 6, 1995

IN RE: Application of Upstate Heater Utilities,	)	ORDER
Inc. for Approval of an Increase in its	)	GRANTING
Water Rates and Charges.	)	INCREASE IN
	)	RATES AND
	)	CHARGES

I.

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Order of the Circuit Court remanding this Docket to the Commission for reconsideration. The Commission had previously issued Order No. 94-1279 and Order No. 95-151, which denied the request of Upstate Heater Utilities, Inc. (Heater or the Company) for an increase in its rates and charges. Pursuant to the Circuit Court's Order remanding the matter to the Commission, the Commission has re-examined the case and believes that its original Orders should be modified as follows.

II.

FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received in the evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. Upstate Heater Utilities, Inc. is a water utility providing water service in its service areas within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10, et seq. (1976, as amended).

2. The appropriate test period for the purposes of this proceeding is the twelve-month period ending March 31, 1994.

3. By its Application, the Company is seeking an increase of its rates and charges for water service of \$71,309 which Staff has calculated to be \$71,836.

4. The appropriate per book operating revenues for the Company for the test year under present rates are \$364,341.

5. The appropriate operating expenses for the Company's South Carolina operations for the test year per book under its present rates is \$308,087.

6. The Company's appropriate level of net operating income for return per books is \$56,864.

7. A year end, original cost rate base per books of \$792,313 should be adopted.

8. The Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

9. A fair operating margin that the Company should have the opportunity to earn is 1.19% which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

10. The rate designs and rate schedules approved by the Commission as described herein are appropriate and should be adopted.

11. The rates and charges depicted in Appendix A, attached herein, and incorporated by reference, are approved and effective for service rendered on and after the date of this Order.

### III.

#### EVIDENCE AND CONCLUSIONS

##### EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1.

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the Docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

##### EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACTS NOS. 2 AND 3.

The evidence for these finding concerning the test period and the amount of the revenue increase requested by the Company is contained in the Application of the Company and the testimony and exhibits of the Company's witnesses.

The Company's filing was based on a test period consisting of the twelve months ending March 31, 1994. The Commission Staff and the parties of record herein likewise offered their evidence generally within the context of that same test period.

A fundamental principle of the ratemaking process is the

establishment of a test year period. The Commission finds the twelve months ending March 31, 1994, to be the reasonable period for which to make its ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 4.

The evidence for the findings concerning the level of operating revenues is found in the testimony and exhibits of Company witness Hilburn and Commission Staff witness Hulton. For purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates per book is \$364,341. Using the Commission's Finding of Fact No. 9 and the Evidence and Conclusions, infra., approving a 1.19% operating margin, the Company's operating revenues shall be \$358,590.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACTS NOS. 5, 6, AND 7.

Operating expenses per book for the test year were \$308,087 as reflected in the testimony of Company witness Hilburn and Staff witness Hulton. The Commission hereby approves all adjustments as agreed upon between the Company and the Staff. The adjustments on which the Company and the Staff differ are discussed as follows.

The Company proposed an adjustment of \$8,357 to operating and maintenance expense, and a (\$5,758) adjustment to general expenses to annualize salaries and wages based on current levels. Staff proposed an \$8,772 adjustment to operating and maintenance expenses, and a (\$6,302) adjustment to general expenses for said annualization. The Commission adopts the Staff's adjustment, since its figures were updated and documented during the audit of

the Company by the Staff.

The Company proposed an adjustment of \$980 to adjust the gross receipts tax to the proper level. Staff recommended an adjustment of \$1,486. The Commission adopts Staff's adjustment, since we believe this to be the most accurate adjustment.

The Staff and the Company proposed to adjust miscellaneous expenses to reflect the year end level. The Company recommends an adjustment of \$44, and the Staff, an adjustment of \$37. The Commission adopts the Staff's adjustment.

Both Staff and Company proposed to amortize rate case expenses over three years. The Company recommends an adjustment of (\$5,380), whereas Staff recommends an adjustment of (\$8,660). The Commission adopts Staff's adjustment, since the Company used estimated expenses, and Staff used actual expenses obtained during the audit.

Both Staff and Company proposed to record the effects of annualizing depreciation expense. The Company recommends an adjustment of \$10,429, whereas the Staff recommends an adjustment of \$9,961. The Commission adopts Staff's adjustment, since it believes Staff's adjustment is the more accurate.

Staff proposes to record the effects of interest synchronization on income taxes. The Company's adjustment of zero is based on the proposed adjustment to interest expenses. The Staff recommends an adjustment of \$8,469. The Commission adopts Staff's adjustment as the more accurate.

Staff proposes to compute the effects of customer growth

based on as adjusted net operating income, and recommends an adjustment of (\$308). The Commission believes that this is an appropriate adjustment and adopts Staff's adjustment.

The Staff and Company both propose to true-up income taxes based on as adjusted taxable income. The Company proposes an adjustment of \$14,811, Staff recommends an adjustment of \$6,342. The Company arrived at its figure by calculating negative income taxes, whereas the Staff calculated its figure because of operating loss after interest expense. The Commission adopts the Staff's adjustment.

We therefore hold that the total operating expenses for the test year are \$322,418, and the Company's appropriate level of net operating income for return is \$28,121.

The Company's rate base is determined by the Commission to be appropriate for the purposes of this proceeding as set forth as follows:

TABLE A

ORIGINAL COST RATE BASE

MARCH 31, 1994

Gross Plant in Service	\$1,281,365
Accumulated Depreciation	(205,603)
Net Plant in Service	<u>1,075,762</u>
Meters & Supplies	9,811
Cash Working Capital	31,028
Contributions in Aid of Construction	(224,214)
Accumulated Deferred Income Taxes	<u>(29,006)</u>
TOTAL RATE BASE	<u>\$ 863,381</u>

Both Staff and Company propose to book the effect of

annualizing depreciation. The Staff recommends an adjustment of (\$2,260), and the Company, an adjustment (\$2,728). The Commission adopts Staff's adjustment.

Further, both Staff and Company propose to allocate a portion of the general office and common plant to the upstate. Both Staff and Company recommends an adjustment of \$81,029 to utility plant in service, and an adjustment of (\$7,701) to accumulated depreciation for a total adjustment of \$71,068 to net plant in service. The Commission adopts these adjustments.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF

FACTS NOS. 8, 9, 10, AND 11.

Under the guidelines established in the decisions of Bluefield Water Works and Improvements Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and... that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of

its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann. §58-5-290 (1976) nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues, and investment in an historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the South Carolina Supreme Court for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

For water utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this calculation, the operating margin, is determined by dividing net operating income for return by the total operating revenues of the utility.

The Commission finds that its use of the operating margin has resulted in fair rates to both the utility and ratepayer. In this



proceeding, the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year under the presently approved schedules; the Company's operating expenses for the test year; and the operating margin under the presently approved schedules for the test year.

TABLE B

Operating Revenues	\$364,341
Operating Expenses	308,087
Net Operating Income (Loss)	56,254
Add: Customer Growth	610
Total Income for Return (Loss)	<u>56,864</u>
Operating Martin (After Interest)	<u>1.19%</u>

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interests of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding; the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have

been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Commission has also considered the impact of the proposed increase on the ratepayers of the Company.

Based upon the record in the instant proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 1.19% which requires annual operating revenues of \$358,590. The following Table reflects an operating margin of 1.19%:

TABLE C

Operating Revenues	\$358,590
Operating Expenses	<u>324,861</u>
Net Operating Income	33,729
Customer Growth	<u>366</u>
Total Income for Return	<u>34,095</u>
Operating Margin (After Interest)	<u>1.19%</u>

The Commission finds that this operating margin provides additional annual revenues of \$8,353 after all approved adjustments. The Commission holds that this additional revenue shall be derived by an increase in the present commodity rate from \$2.60 per 1,000 gallons to \$2.70 per 1,000 gallons. This rate structure appears in Appendix A attached hereto. The Commission finds that the rates and charges approved herein achieve a balance between the interests of the Company and those of its customers. These rates and charges result in a reasonable attainment of the Commission's ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED THAT:

1. The originally proposed schedule of rates and charges by the Company is found to be unreasonable and is hereby denied.
2. The schedule of rates and charges attached hereto as Appendix A is hereby approved for service rendered on or after the date of this Order. The schedule is deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.
3. The Company shall maintain its books and records for water operations in accordance with the NARUC Uniform System of

Accounts for Class B Water Utilities, as adopted by this  
Commission.

4. This Order shall remain in full force and effect until  
further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)

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APPENDIX A

UPSTATE HEATER UTILITIES INC.  
P.O. Drawer 4889  
Cary, N.C. 27519  
(919) 467-7812

FILED PURSUANT TO DOCKET NO. 94-304-W -- ORDER NO. 95-1491  
EFFECTIVE DATE: SEPTEMBER 6, 1995

THE SCHEDULE OF WATER RATES AND CHARGES ARE AS FOLLOWS:

METERED RATES (PER SINGLE FAMILY EQUIVALENT):

Basic Facility Charge (monthly)	-	\$ 8.75
Commodity Charge (per 1,000 gal.)	-	\$ 2.70
Water Reconnection Charge	-	\$ 30.00
New Customer Account Charge	-	\$ 22.00

One time fee charged to each account to  
defray cost of initiating service.

\* Tap fee - \$500.00

\* The full gross up will be added to the tap fee.